

February 1990

# CENTRAL AMERICA

## Activities of the Verification Commission



Comptroller General  
of the United States

B-235946

February 23, 1990

The Honorable Patrick J. Leahy  
Chairman, Subcommittee on Foreign  
Operations  
Committee on Appropriations  
United States Senate

The Honorable Christopher J. Dodd  
Chairman, Subcommittee on Western  
Hemisphere and Peace Corps Affairs  
Committee on Foreign Relations  
United States Senate

The Honorable David R. Obey  
Chairman, Subcommittee on Foreign  
Operations, Export Financing and  
Related Programs  
Committee on Appropriations  
House of Representatives

The Honorable George W. Crockett, Jr.  
Chairman, Subcommittee on Western  
Hemisphere Affairs  
Committee on Foreign Affairs  
House of Representatives

Public Law 100-276 (Apr. 1, 1988) required GAO to independently audit the expenditure of funds to provide assistance to Central America. These funds included \$10 million in unobligated fiscal year 1986 funds transferred from the Department of Defense to the Agency for International Development (AID) to support activities of the Verification Commission. The Commission was established to ensure compliance with the Sapoa Agreement between the Nicaraguan government and the Nicaraguan Democratic Resistance in March 1988. The Agreement called for, among other things, a cease-fire and relocation of Resistance forces to zones inside Nicaragua.

## Results in Brief

The Verification Commission has spent only a small part of the \$10 million authorized. Political events in Nicaragua prevented the Commission from fully carrying out its verification activities. Thus, the Commission could not use some vehicles and equipment it had purchased for those

activities. In addition, other items were not used because they were impounded by the Nicaraguan government, power or other equipment necessary for operation was lacking, or the items were not needed. The Commission initially paid high salaries to some of its employees but subsequently reduced the salaries and recouped some funds.

As of February 1990, the Commission's future role was uncertain. Few people remained employed and disposition of equipment had not been determined.

## Creation of the Commission

On March 23, 1988, the government of Nicaragua and the Nicaraguan Resistance signed a preliminary cease-fire agreement at Sapoá, Nicaragua. In addition to a cease-fire, the agreement called for relocation of Resistance forces to seven zones inside Nicaragua where they would receive humanitarian assistance; amnesty for political prisoners; peaceful reintegration and full political, economic, and social participation for those who had left Nicaragua; and freedom of expression. The Verification Commission, to be headed by Cardinal Obando y Bravo of the Nicaraguan Catholic Church and Joao Baena Soares, Secretary General of the Organization of American States (OAS), was established to verify compliance with all aspects of the agreement.

Public Law 100-276 transferred \$10 million of unobligated fiscal year 1986 Defense Department funds to AID for periodic payments to support Commission activities. These funds were to remain available until expended. The AID Administrator established a task force to implement this assistance and other programs funded under the legislation.<sup>1</sup> After signing a cooperative agreement with the Commission in May 1988, AID began advancing funds to the Commission.

In March 1988, the Commission began hiring staff, purchasing equipment, and conducting initial verification activities.<sup>2</sup> Specifically, the Cardinal's organization investigated and reported on alleged cease-fire and human rights violations. On behalf of the OAS Secretary General, the OAS Inter-American Commission on Human Rights studied and reported on

<sup>1</sup>P.L. 100-276 also provided \$17.7 million in humanitarian assistance to the Nicaraguan Resistance and \$17.7 million to aid children injured in the Nicaraguan war.

<sup>2</sup>The Verification Commission was not established as a unified legal entity. The Cardinal's organization and the OAS conducted activities and expended funds separately under the cooperative agreement.

amnesty eligibility and due process for members of the National Guard.<sup>3</sup> From March through June 1988 and in September 1988, the OAS Secretary General, the Cardinal, or their representatives attended negotiations between the Nicaraguan government and the Resistance.

## Activities Curtailed by Political Events

Shortly after the Commission became operational, political events in Nicaragua prevented it from fully carrying out its duties. In June 1988, negotiations between the Resistance and the Nicaraguan government broke down. The cease-fire zones did not become operational, and the Nicaraguan government withdrew logistical support of the Commission. In August 1988, the government proposed to limit the Commission's duties to verifying cease-fire violations and issuing statements on negotiations that had taken place. In October 1988, the government decreed that any Nicaraguans receiving U.S. funds under Public Law 100-276 were guilty of treason and subject to imprisonment.<sup>4</sup>

Due to the decree and the low level of verification activity, the Cardinal's organization reduced its staff to a core level. Since October 1988, Commission activities have been limited to occasional cease-fire investigations, verification of the release of former National Guard members, and talks with AID, the Nicaraguan government, and the Nicaraguan Resistance concerning a possible role in carrying out a plan devised by the Central American presidents to demobilize and repatriate Resistance members.<sup>5</sup>

## Fund Transfers and Expenditures

As of June 30, 1989, AID had advanced about \$4.1 million to the Commission. The OAS additionally earned about \$107,000 in interest. Thus, total funds available to the Commission totaled about \$4.2 million. As of June 30, 1989, the Commission had spent about \$1.9 million, primarily for salaries, vehicles, and equipment. It returned about \$2.2 million in unspent funds, proceeds from vehicle sales, and earned interest to AID.

<sup>3</sup>The National Guard was the militia for the Somoza government, which held power until the current government, headed by the Sandinistas, took over in 1979.

<sup>4</sup>A special agreement was to be reached allowing the Commission to continue activities. Although an agreement was never finalized, Commission officials stated, in December 1989, that the government has indicated its willingness to allow the Commission to operate by releasing items purchased by the Commission from customs and waiving certain fees.

<sup>5</sup>In August 1989, the presidents met and approved a plan for the demobilization of the Resistance and voluntary repatriation or regional relocation of Resistance members, families, and supporters and other Nicaraguan refugees in Central America.

and had a remaining balance of about \$92,000. Table I.1 in appendix I provides a detailed breakdown of fund transfers and expenditures.

## High Staff Salaries Were Adjusted

The Cardinal established offices in Washington, D.C., and Nicaragua—in Managua and the seven cease-fire zones—and hired advisers, bishops, observers, and support staff to carry out verification duties. Some of the monthly salary levels were set high for Nicaragua, and in two cases, the organization paid salaries that exceeded the monthly limit established by AID guidelines for payment of contractor salaries.

Through June 30, 1989, the Cardinal's organization expended about \$660,000, or 41 percent of its total expenses for salary payments. The organization paid monthly salary rates<sup>6</sup> to the cease-fire zone and Managua-based observers and to advisers and bishops on the Managua staff in amounts ranging from \$1,000 to \$9,000 between April and June 1988.

These salaries were high in a country with an average monthly income of about \$33. In July 1988, AID questioned the salary levels after receiving the organization's financial statement for the period May 31 through June 30, 1988, and requested an independent audit. Price Waterhouse, a public accounting firm, completed a preliminary review in September 1988 and questioned salary payments totaling \$29,700 for two advisers—one in Managua and one in Washington, D.C.—because the monthly rate paid exceeded the \$5,900 limit established for contractors by AID guidelines. Officials from the Cardinal's organization and AID stated that the Cardinal's staff was not familiar with these guidelines and therefore included travel and per diem expenses in salary payments.

The Cardinal's organization subsequently reduced the two advisers' monthly salaries to a level below \$5,900 in July 1988 to recoup overpayment from prior months and began paying them \$5,900 per month in August 1988. The organization also decreased salaries for the other advisers, bishops, and observers.

<sup>6</sup>Salary figures reflect the salary rate rather than the actual amount paid per month because some employees worked for only a portion of a given month or for only a portion of the period from April through June 1988.

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## Some Unused Equipment Remains in Storage

The Cardinal's organization purchased 19 vehicles and 17 electrical generators at a total cost of about \$399,000. However, the items were never used because the Nicaraguan government impounded them in June 1988. In February 1989, the government allowed the Cardinal's organization to sell the vehicles. As of August 1989, the Commission had sold 13 vehicles at a total loss of about \$17,000. By September 1989, the government had released the remaining vehicles and the generators. According to the Cardinal's staff, these items are now being stored in Managua pending possible use.

The OAS and Cardinal's organization were also unable to use certain items due to curtailment of activities resulting from political events during 1988. Of six vehicles purchased at a total cost of \$98,000, the OAS was able to use only one. The OAS sold two vehicles for about \$600 less than originally paid, and the remaining three were stored in Panama. These three vehicles are now in Nicaragua for use in election monitoring activities. The OAS and the Cardinal's organization also purchased items such as a radio communications system and computers that remain in storage in Washington, Miami, and Managua.

In some cases, office equipment purchased by the Cardinal's organization for the seven zones was not used to its fullest extent. For example, one zone did not have telephone service or electricity, rendering a facsimile machine and electrical equipment useless. If the generators had been available, the zone personnel could have made use of the equipment. An air conditioner in another zone was not used because the climate is fairly moderate, and a refrigerator was not needed because another was available.

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## Future Role of the Commission

As of January 1990, the Commission was still operating at a reduced level. The Cardinal's organization may have a role in monitoring the treatment of Resistance members and supporters who decide to repatriate to Nicaragua under the Central American presidents' August 1989 plan. However, as of January 1990, the Resistance remained intact. In June 1989, the OAS received \$1.5 million under Public Law 101-45 to monitor activities leading up to elections to be held in Nicaragua in February 1990. AID supplemented this funding in January 1990 with \$2 million from remaining Commission funds authorized under Public Law 100-276. Thus, the OAS is continuing to monitor election activities as part of its Commission responsibilities.

The results of our review are discussed in more detail in appendix I. Appendix II describes our objectives, scope, and methodology.

We did not request that AID provide us with formal written comments on a draft of this report, but we did obtain oral comments from its task force officials on the matters discussed. We also discussed the applicable portions of the report with officials of the OAS and representatives from the Cardinal's organization. The report has been revised to reflect the comments made by each of these parties.

Copies of this report will be sent to interested congressional committees; the Administrator of AID; the Secretary of State; and the Director, Office of Management and Budget. The report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues. He can be reached on (202) 275-4128 if you or your staff have any questions.

  
for Charles A. Bowsher  
Comptroller General  
of the United States





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## Abbreviations

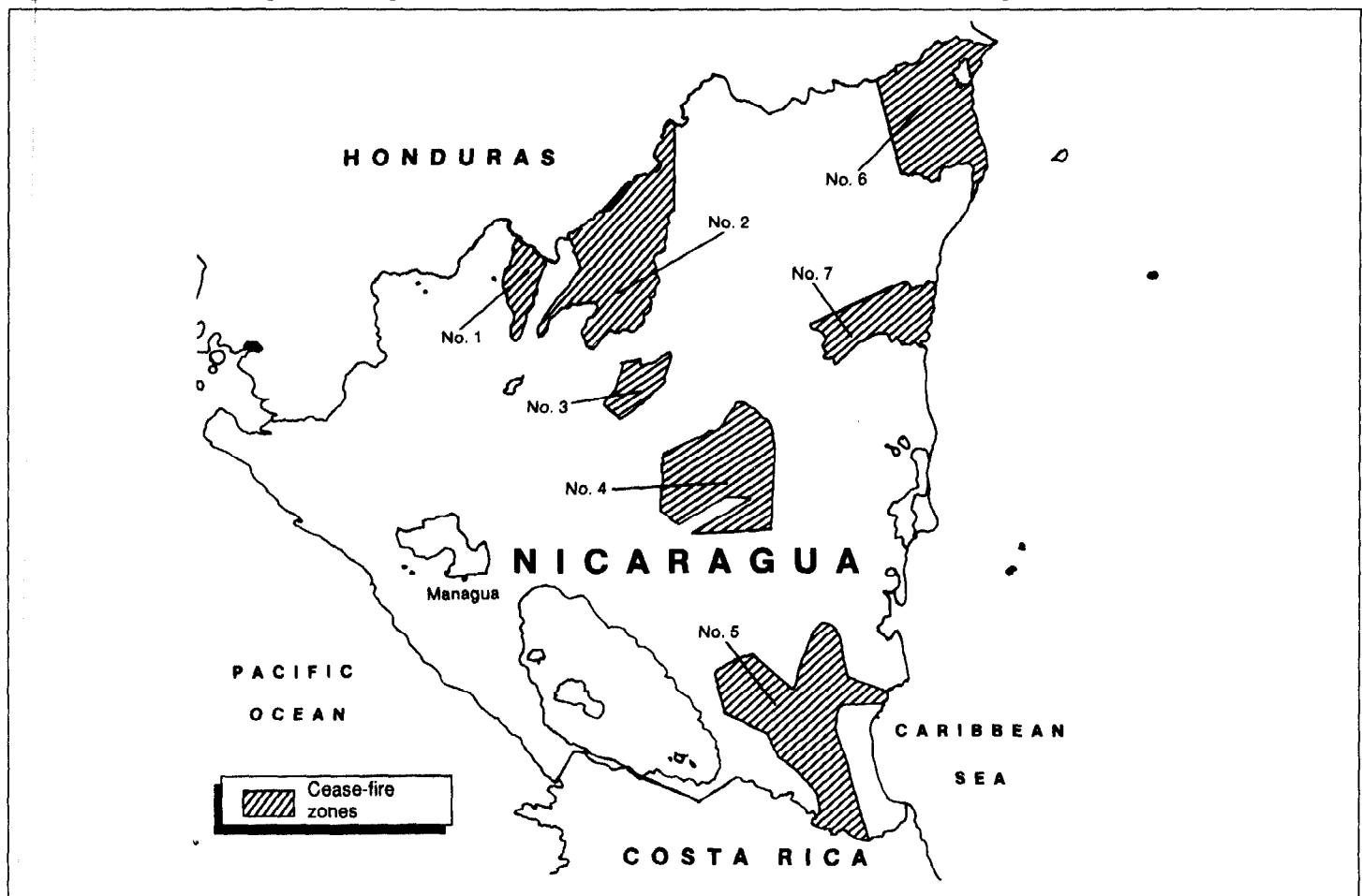
AID	Agency for International Development
OAS	Organization of American States



# Activities of the Verification Commission

On March 23, 1988, the government of Nicaragua and the Nicaraguan Resistance signed a preliminary cease-fire agreement at Sapoá, Nicaragua. In addition to cessation of hostilities, the Sapoá Agreement called for relocation of Resistance forces to seven zones (See Figure I.1) inside Nicaragua where they would receive humanitarian assistance; amnesty for political prisoners; peaceful reintegration and full political, economic, and social participation for those who had left Nicaragua; and freedom of expression. It also established the Verification Commission, to be headed by Cardinal Obando y Bravo, head of the Catholic Church in Nicaragua, and Joao Baena Soares, Secretary General of the Organization of American States (OAS), to verify compliance with all aspects of the agreement.

**Figure I.1: Map of Nicaragua Showing the Seven Cease-Fire Zones Established by the Sapoá Agreement**



Public Law 100-276 transferred \$10 million of unobligated fiscal year 1986 Defense Department funds to the Agency for International Development (AID) for periodic payments to support Commission activities. These funds were to remain available until expended. The AID Administrator established a Task Force on Humanitarian Assistance to implement this assistance and other programs funded under the legislation.

In April 1988, the OAS requested that AID advance the entire \$10 million to the OAS treasurer to support Commission activities. Before agreeing to transfer funds, the AID Task Force Director requested that the OAS Secretary General and the Cardinal submit a program description and budget. The OAS submitted this information on behalf of the Commission in early May 1988. By the end of May 1988, the AID director had approved the submission, signed a cooperative agreement with representatives of the OAS Secretary General and the Cardinal, and began providing funds in periodic payments. As of June 30, 1989, AID had advanced about \$4.1 million to the Commission.

Under the cooperative agreement, the Commission was responsible for establishing a system in the seven zones to verify

- the cease-fire and relocation of Resistance forces;
- the delivery of humanitarian aid to Resistance forces through neutral organizations;
- freedom of expression in Nicaragua;
- Resistance participation in the National Dialogue, a forum for talks between the government of Nicaragua and the civic opposition;
- guarantees of political, social, and economic rights for expatriates who had returned to Nicaragua, including assurances against persecution;
- participation in Central American Parliament elections and Nicaraguan municipal and national elections by Nicaraguans who had peacefully integrated; and
- compliance with any subsequent agreements between the Nicaraguan government and the Resistance.

In addition, the OAS Secretary General was responsible for facilitating and monitoring the amnesty process for political prisoners, including members of the National Guard, and verifying their release.

## Commission Activities and Impact of Political Events

Beginning in March 1988, the OAS and the Cardinal's organization began hiring staff, purchasing equipment, and conducting verification activities. The Cardinal's organization primarily investigated and reported on alleged cease-fire and human rights violations by the Nicaraguan government and the Resistance. On behalf of the OAS Secretary General, the Inter-American Commission on Human Rights studied and reported on amnesty eligibility and due process for former members of the National Guard. Both the OAS Secretary General and the Cardinal, or their representatives, attended negotiating meetings between the Nicaraguan government and the Resistance held from March through June 1988 and in September 1988.

However, shortly after the Commission became operational, political events in Nicaragua prevented it from fully carrying out its duties. On June 9, 1988, negotiations between the Resistance and the Nicaraguan government on the terms of the Sapoa Agreement broke down, and the government withdrew its support of the Commission. The cease-fire zones did not become operational, and most Resistance members and their families went to Honduras to receive humanitarian assistance from AID.<sup>1</sup> In August 1988, the Nicaraguan government proposed limiting the Commission's duties to verifying cease-fire violations and issuing statements on negotiations that had taken place.

On October 6, 1988, the Nicaraguan government decreed that any Nicaraguans receiving funds under Public Law 100-276 were guilty of treason and subject to 4 to 12 years in prison.<sup>2</sup> Due to the decree and the low level of verification activity, the Cardinal reduced his staff to a core level. Since that time, Commission activities have been limited to periodic cease-fire investigations, receiving and forwarding to the Nicaraguan government allegations of human rights violations, verification of the March 1989 release of former National Guard members, and discussions with AID, the Nicaraguan government and the Nicaraguan Resistance concerning the Commission's role in carrying out a plan devised by the five Central American presidents in August 1989 to demobilize and

<sup>1</sup> AID began delivering humanitarian assistance to Resistance members in Honduras in mid-April 1988 while the Resistance and Nicaraguan government were attempting to reach agreement on operation of the cease-fire zones. After negotiations broke down, AID continued to deliver assistance in Honduras.

<sup>2</sup> According to Commission officials, this decree stipulated that the Commission could continue to use P.L. 100-276 funds upon reaching agreement with the Nicaraguan government on allowable activities. Although no agreement was reached, these officials stated, in December 1989, that the government has indicated its willingness to allow the Commission to operate by releasing items purchased by the Commission from customs and waiving certain fees.

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repatriate Resistance members.<sup>3</sup> In November 1989, the Cardinal and the Secretary General witnessed negotiations between the Nicaraguan government and the Resistance in New York and Washington, D.C.

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## Fund Transfers and Expenditures

The cooperative agreement required AID to transfer funds monthly to the OAS treasurer, with a designated amount to be further disbursed to the Cardinal's organization. The amounts transferred were based on expenses incurred in the previous month and a proposed budget to cover projected expenses for the following month.

As of June 30, 1989, AID had advanced about \$4 million to the OAS and about \$111,000 directly to the Cardinal's organization.<sup>4</sup> The OAS disbursed about \$1.87 million to the Cardinal's organization, retained about \$2.1 million, and earned about \$107,000 in interest. Total funds available to the Commission totaled about \$4.2 million. Of these funds, the Commission spent about \$1.9 million; returned about \$2.2 million in unspent funds, proceeds from vehicle sales and earned interest to AID<sup>5</sup>; and had a remaining balance of about \$92,000.

Table I.1 summarizes the Commission's funding and expenditures from March 31, 1988, through June 30, 1989.

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<sup>3</sup>In August 1989, the presidents met and approved a plan for the demobilization of the Resistance and voluntary repatriation or regional relocation of Resistance members, families, and supporters, and other Nicaraguan refugees in Central America.

<sup>4</sup>According to an AID official, AID began advancing funds directly to the Cardinal's organization in March 1989, after Commission activities had been curtailed and the OAS had experienced severe staff cutbacks.

<sup>5</sup>Of these funds, AID returned about \$102,000 in interest earned by the OAS to the U.S. Treasury and credited about \$2.1 million in unspent funds and proceeds from vehicle sales to the AID account for the Commission.

**Table I.1: Funding and Expenditures of the Verification Commission From March 31, 1988, Through June 30, 1989**

<b>Funding</b>	<b>Amount</b>
OAS	\$2,125,085
Cardinal	1,980,496 <sup>a</sup>
Interest earned (OAS)	106,757
<b>Total</b>	<b>\$4,212,338</b>
<b>Expenditures</b>	
OAS	
Expenditures	359,925 <sup>b</sup>
Returned to AID	1,856,785
<b>Total</b>	<b>\$2,216,710</b>
Cardinal	
Expenditures	1,567,617 <sup>b</sup>
Returned to AID	335,561
<b>Total</b>	<b>\$1,903,178</b>
<b>Total Expenditures</b>	<b>\$4,119,888</b>
Ending balance	\$92,450

<sup>a</sup>Includes \$1,869,854 disbursed by the OAS and \$110,642 transferred directly from AID

<sup>b</sup>Tables I.2 and I.3 provide a further breakdown of expenditures.

## Accounting and Audit Requirements

The cooperative agreement required the OAS Secretary General and the Cardinal's organization to maintain accounting records, report periodically to AID on the use of program funds, and hire an independent auditor. The OAS Board of External Auditors audited OAS expenditures for Commission activities as part of its annual financial audit and issued a financial statement that reflected expenditures as of December 31, 1988.

In June 1988, the Cardinal's organization contracted with Raffa Associates, a public accounting firm, to maintain accounting records. At AID's request, the organization contracted with Price Waterhouse, also a public accounting firm, in August 1988 to conduct an independent concurrent financial and compliance audit.

As of January 1990, Price Waterhouse had issued quarterly reports on expenditures incurred from June 30, 1988, through March 31, 1989, and had found no material weaknesses in the organization's internal accounting system. However, the reports pointed out the need for more detailed supporting documentation for purchases and payments made by the Cardinal's organization. According to the Raffa accountant, the

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organization has subsequently improved its submission of supporting documentation.

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## AID Oversight

AID Task Force officials said that their role in administering Commission funds has been to review and approve the program description and subsequent proposed budgets and to transfer funds when needed. They stated that their review of expenditures has been limited to ensuring that funded activities were related to the verification process. In their view, additional involvement in the Commission's operations is not appropriate because the Commission is a neutral organization and should not be influenced by any government.

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## OAS Activities

The OAS Secretary General relied primarily on his OAS staff in Washington, D.C., and two additional employees to perform Commission duties. These persons traveled periodically to Nicaragua. In addition, 16 persons from the OAS Inter-American Commission on Human Rights traveled to Nicaragua in the spring of 1988 to evaluate the amnesty eligibility of prisoners who were members of the former regime's National Guard. The Secretary General and his staff attended negotiating meetings between the government of Nicaragua and the Resistance from March through June 1988 and in September 1988 in Central America. In March 1989, they witnessed the pardon of 1,894 former National Guard members and the release of 1,649 members of this group from prison in Nicaragua.

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## Expenditures

As of June 30, 1989, the OAS had received a total income of \$4.1 million to carry out Commission activities, including about \$4 million in funds transferred from AID and about \$110,000 in interest earned on the transferred funds. Of the \$4.1 million, OAS disbursed about \$1.87 million to the Cardinal, expended about \$360,000, and returned about \$1.86 million to AID. The OAS expended funds primarily for salaries, travel,<sup>6</sup> equipment, and vehicles. The funds returned to AID included about \$1.75 million in unspent funds in February 1989 and about \$102,000 in interest earned through January 1989.

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<sup>6</sup>The salaries of regular OAS personnel and the travel expenses incurred by the Secretary General were not charged to this grant. According to an OAS official, these funding decisions were made in order to maintain independence from the unilateral nature of PL 100-276 funds.



**Appendix I**  
**Activities of the Verification Commission**

Table I.2 shows net expenditures incurred by OAS from March 31, 1988, through June 30, 1989.

**Table I.2: OAS Net Expenditures for Verification Commission Activities From March 31, 1988, Through June 30, 1989**

<b>Expenditure</b>	<b>Amount</b>
Inter-American Commission	
Salaries	\$4,819
International travel	30,537
Equipment	1,234
<b>Total</b>	<b>\$36,590</b>
Secretary General's Staff	
Salaries	\$16,972
International travel	87,460
Vehicles	68,299
Equipment	118,556
<b>Total</b>	<b>\$291,287</b>
Administrative support	32,048
<b>Grand Total</b>	<b>\$359,925</b>

**Some Vehicles and Equipment Could Not Be Used**

The OAS purchased six vehicles and various equipment, such as a radio communications system, cameras, and a generator, for use in conducting verification activities in Nicaragua. Some of these items could not be used due to the low level of verification activity and were either sold or stored pending possible use for OAS election monitoring activities.

Of the six vehicles, the OAS sold two back to a Panamanian dealer for a total of \$28,600—about \$600 less than originally paid because the OAS had to pay customs fees and storage and handling costs. One of the remaining vehicles was sent to Managua and has been used by OAS personnel for Commission business. The other three had been stored at the U.S. Southern Command in Panama but are now in country and are being used for OAS election monitoring activities.

Part of the radio system is stored in Washington, D.C., and part is being used in Nicaragua. Other items are in Washington and Managua. According to OAS officials, they are able to use some of these items for election monitoring activities in Nicaragua.

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## Activities of the Cardinal's Organization

Beginning in March 1988, the Cardinal established offices in Washington, D.C., and Managua, Nicaragua; hired field observers; and purchased equipment and vehicles for use in the seven cease-fire zones. The Washington office employed three advisers to coordinate on behalf of the Cardinal with AID, the State Department, and the OAS and to conduct public affairs. These advisers also hired the accounting services on behalf of the Cardinal. Two additional advisers were employed in Miami to oversee equipment purchases and to perform other administrative duties.

In May 1988, the Cardinal opened an office in Managua and by June 30, 1988, had hired a full-time staff of 83 employees in Nicaragua, including 23 at the Managua office and 60 in the cease-fire zones. The Managua staff included three advisers, five observers, and three bishops responsible for oversight of verification activities in the zones and 12 support personnel such as secretaries, security guards, and drivers. In addition, the office employed three part-time instructors to train observers in investigating and documenting cease-fire and human rights violations.

Each of the seven zones was staffed by a coordinating observer, who supervised between 3 and 14 senior observers and "apoyos," or supporting observers. The apoyos were natives of the area and reported alleged cease-fire and human rights violations. The coordinator then directed the senior observers, who were often legal professionals with human rights experience, to investigate the claims. Each zone's coordinator prepared periodic reports on the results of the investigations and submitted them to the Cardinal and the State Department. In addition to written reports, several video reports were issued.

Since the Nicaraguan government's October 1988 decree that prohibited the use of Public Law 100-276 funds, the Cardinal's organization has retained only a few employees. As of October 1988, the bishops, observers, and Miami advisers were no longer employed. As of June 30, 1989, the Managua staff consisted of two advisers, a bookkeeper, two secretaries, and a driver. Their work is limited to periodically reporting information to the Washington staff on cease-fire violations and the status of talks between the Cardinal and the Nicaraguan government on future Commission work.

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## Expenditures

As of June 30, 1989, the Cardinal's organization had received a total income of about \$1.9 million to carry out Commission activities, including \$1.87 million disbursed by the OAS treasurer and about \$111,000 transferred directly from AID. Of these funds, the organization expended

**Appendix I**  
**Activities of the Verification Commission**

about \$1.6 million and returned about \$336,000 in proceeds from vehicle sales and excess funds to AID. Expenditures were primarily for salaries and the purchase or rental of vehicles, generators, and other equipment.

Table I.3 summarizes expenditures by the Cardinal's organization from March 31, 1988, through June 30, 1989.

**Table I.3: Expenditures of the Cardinal's Organization for Verification Commission Activities From March 31, 1988, Through June 30, 1989**

<b>Expenditure</b>	<b>Amount</b>
Salaries	
Advisers	\$357,267
Observers	167,303
Bishops	45,420
Support staff	87,738
Instructors	1,900
<b>Total</b>	<b>\$659,628</b>
Equipment and vehicles	
Office equipment purchase	\$176,829
Office equipment rental	3,446
Vehicle purchase	182,341
Vehicle rental	7,136
Other equipment purchase	136,501
Other equipment rental	1,450
<b>Total</b>	<b>\$507,703</b>
Washington office	
Rent	\$26,454
Telephone	16,359
Supplies	2,558
Printing	3,605
Newsletter	12,496
Employer taxes	14,967
Miscellaneous	5,167
<b>Total</b>	<b>81,606</b>

(continued)

**Appendix I**  
**Activities of the Verification Commission**

<b>Expenditure</b>	<b>Amount</b>
Managua office	
Rent	\$57,500
Telephone	1,349
Maintenance	2,152
Supplies	4,339
Printing	2,473
Mules	2,122
Miscellaneous	4,432
<b>Total</b>	<b>\$74,367</b>
Accounting/legal/ translation services	144,234
Travel/per diem expense	100,080
<b>Grand Total</b>	<b>\$1,567,618</b>

**Some Staff Were Paid High Salaries**

As table I.3 indicates, the Cardinal's organization expended about \$660,000, or 41 percent of its total expenses through June 30, 1989, for salaries. Monthly salary levels for some employees in Nicaragua were high compared to the average salary paid to a Nicaraguan, and in two cases, the organization paid salaries that exceeded the monthly limit established in AID regulations.

The organization paid monthly salary rates to the cease-fire zone and Managua-based observers and to advisers and bishops on the Managua staff in amounts ranging from \$1,000 to \$9,000 between April and June 1988. Specifically, the apoyos in the zones received the U.S. dollar equivalent of \$1,000 per month in Nicaraguan cordobas; all other personnel received U.S. dollars.<sup>7</sup> The zone observers received \$2,000 per month, and the five Managua-based observers were paid \$3,000 per month. Monthly salaries for the three advisers ranged from \$1,800 to \$9,000, and the three bishops received \$5,000.

These salaries were high in a country with an average monthly income of about \$33. The Cardinal's staff explained that the Nicaraguan government had initially intended that all salaries paid in U.S. dollars be exchanged for cordobas at the official rate of 13 cordobas to \$1. Economic indicators at that time predicted inflation and a devaluation of

<sup>7</sup>The Cardinal's staff told us that since the apoyos were native to their remote regions, they would have little need for dollars. On the other hand, many of the senior observers often visited their families in Managua, where U.S. dollars are required to purchase many commodities.

the cordoba; therefore, they believed that these salary levels were necessary to maintain adequate buying power. However, the government did not enact the currency exchange program, and the organization continued to pay salaries in U.S. dollars.

In July 1988, AID officials questioned the level of salary payments after receiving the organization's statement of expenses for May 31 through June 30, 1988, and its budget request for July 1988. At AID's request, the Cardinal's organization hired Price Waterhouse in August 1988 to audit the statement and subsequent expenditures. The organization discontinued salary payments until after Price Waterhouse auditors completed a preliminary review in September 1988.

In its review, Price Waterhouse questioned salary payments totaling \$29,700,<sup>8</sup> including salaries for one Managua adviser and a Washington, D.C., adviser who had been paid at a rate of \$9,000 per month in May and June 1988. These salaries exceeded the \$5,900 limit established in AID Handbook 14 for contractor salaries. The Cardinal's staff told us that prior to the Price Waterhouse audit, they had been unfamiliar with AID guidelines regarding salary limits and included travel and per diem expenses in salary payments.

The Cardinal's organization subsequently reduced the two advisers' monthly salaries for the month of July 1988 to a level below \$5,900 to recoup overpayment from prior months and began paying them at a rate of \$5,900 per month for August and subsequent months. The organization also reduced salaries for the three bishops and the zone and Managua-based observers. For July 1988 and subsequent months, the bishops received \$2,500 per month, and the zone observers were paid only for days worked. By September 1988, their monthly salaries ranged from \$23 to \$1,300.

The salary rates for the Managua-based observers were reduced to \$1,500 per month beginning in July 1988 for two observers and in September 1988 for the other three. The three bishops were no longer employed after September 1988, and no observers were employed after October 1988.

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<sup>8</sup>Price Waterhouse also questioned \$13,345 for travel, telephone, and other expenses because of inadequate documentation. In response, the Cardinal's organization submitted documentation, offset disallowed costs against subsequent salary payments, or obtained reimbursement for those costs.

These reductions significantly decreased overall salary expenses. In June 1988, the total amount expended for salaries was \$155,846. This figure dropped to \$98,413 in July and \$39,121 in October 1988. From January through June 1989, the monthly salary expense for the entire Cardinal's organization averaged about \$22,750.

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**Some Equipment  
Purchased Could Not Be  
Used**

From April through September 1988, the Cardinal's organization purchased some items for the offices in the cease-fire zones that could not be used because they had been impounded by the Nicaraguan government, conditions in Nicaragua curtailed Commission activities, or power or other equipment necessary for operation was lacking. Also, some equipment was not used because it was excess or inappropriate for existing conditions.

For example, the organization purchased 19 vehicles and 17 generators at a total cost of about \$399,000. The generators were needed because electricity is periodically cut off in Nicaragua, and one zone does not have electricity at all. However, the items were never used because, after withdrawing support of the Commission in June 1988, the Nicaraguan government impounded the vehicles in car dealerships and the generators in a government warehouse.

In February 1989, the government allowed the Cardinal's organization to sell the vehicles but would not release them for Commission use. As of August 31, 1989, the organization had sold 13 vehicles to the Managua dealers from which they were purchased and returned \$171,866 to AID. The Cardinal's staff attempted to avoid a loss on the vehicle sales; however, twelve of these vehicles were sold for about 10 percent less than their original cost, for a loss of about \$17,000. The organization decided to retain the remaining six vehicles for possible future use. The Nicaraguan government released these vehicles in September 1989 and the generators in August 1989 and waived storage fees. According to the Cardinal's staff, the vehicles and generators are now being stored in Managua.

**Figure I.2: Vehicles Impounded in Managua Dealerships (May 1988)**



The organization also purchased equipment that could not be used due to the curtailment of verification activities resulting from political events during 1988. Of 13 computers purchased at a cost of about \$32,000 for use in Washington, D.C., Managua, and the cease-fire zones, only four could be used—two in the Washington office and two in the Managua office. According to the Cardinal's staff, the remaining nine are now being stored in Miami, pending possible use.

In some cases, cease-fire zone personnel could not use the equipment to its fullest extent. For example, one zone near the Atlantic Coast did not have telephone service or electricity, rendering the facsimile machine and other equipment useless. If the generators had been available, zone personnel could have made use of the equipment. The coordinating observer of another zone told us that he did not use the air conditioner because the climate in that zone is fairly moderate, and he did not use the refrigerator because another was available. He stated that he rarely used the facsimile machine because the telephone lines are inadequate and that one videocamera rather than two would probably have been sufficient. The Cardinal's staff in Managua stated that offices in the other five zones also had some equipment that was not used.

Officials from the Cardinal's organization acknowledged that they used poor judgment regarding some equipment purchases and salary levels. They attributed their decisions to enthusiasm in getting the program

started, a desire to be ready as soon as the cease-fire zones became operational, and uncertainty over how these zones would operate. Further, the changing political climate made it difficult to assess the type and amount of equipment that would be needed. Although talks between the Resistance and the Nicaraguan government broke down in June 1988, the organization continued to purchase equipment in anticipation that future talks might result in opening of the zones and additional verification activities. The two parties met again in Guatemala on September 1988 but did not reach agreement.

An AID official stated that AID was aware of the type of equipment being purchased and that equipment had been impounded by the Nicaraguan government; however, AID was not aware that some equipment could not be used. AID's position is that Commission officials are responsible for purchasing and other operational decisions and that AID's role should be limited to reviewing expenditures to determine if they are reasonable. The cooperative agreement does not require AID to approve purchases and other payments before expenditures are incurred.

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## Future Role of the Commission

The Commission is still operating at a reduced level, and its future role is uncertain. The Commission and the government of Nicaragua have discussed the possibility of a role for the Cardinal's organization in carrying out the Central American presidents' August 1989 plan calling for demobilization, relocation, or repatriation of Resistance members. Also, according to the Cardinal's staff, the State Department submitted a proposal in September 1989 to the Cardinal to use his organization to monitor alleged human rights violations against Resistance members and supporters who decide to repatriate, if the Nicaraguan government allows such verification activity to take place.

Although the presidents' plan called for disbanding of the Resistance by December 8, 1989, as of February 1990, the Resistance remained intact. Thus, the role of the Cardinal's organization is uncertain. Although observers previously employed by the organization have not been working since October 1988, the Cardinal's staff believes that they could quickly resume their duties. In addition, much of the equipment purchased for the zones remains in Nicaragua and is thus available. AID has elected to defer any decisions regarding disposition of the equipment, pending the outcome of any decisions to demobilize and repatriate the Resistance.



The OAS is currently monitoring activities leading up to elections to be held in Nicaragua in February 1990. Public Law 101-45, enacted on June 30, 1989, authorized \$1.5 million for the OAS to monitor election-related activities. To supplement this funding, OAS requested AID to provide \$2 million from Commission funds authorized under Public Law 100-276. In January 1990, AID transferred these funds to the OAS, and the OAS is continuing the monitoring activity as part of its Commission responsibilities.

# Objectives, Scope, and Methodology

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Public Law 100-276 required GAO to independently audit funds provided to support the Verification Commission. Our objectives were to examine and report on the use of funds expended by the Commission. We conducted our review at AID, OAS, and offices of the Cardinal's organization, Raffa Associates, and Price Waterhouse in Washington, D.C. In Nicaragua, we met with U.S. Embassy officials and Cardinal Obando y Bravo and his staff in Managua and visited the Cardinal's office located in La Fonseca in the Chontales province.

At each location, we interviewed knowledgeable officials and reviewed pertinent documents, including the Sapoa agreement, accounting records, financial statements, audit reports, and invoices. We also observed the use of vehicles and equipment by the Cardinal's organization in Managua and La Fonseca.

We performed our review between April 1988 and October 1989 in accordance with generally accepted auditing standards.

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